

DIRECT TESTIMONY  
OF  
JUDITH R. MARSHALL

TELECOMMUNICATIONS DIVISION  
ILLINOIS COMMERCE COMMISSION

ILLINOIS BELL TELEPHONE COMPANY  
d/b/a AMERITECH ILLINOIS

DOCKET NO. 00-0700

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Self Docket No. 2.0  
Witness \_\_\_\_\_  
Date 6-28-01 Reporter CB

1   **Q.    Please state your name and business address.**

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3   A.    My name is Judith R. Marshall and my business address is 527 East Capitol  
4        Avenue, Springfield, Illinois 62701.

5

6   **Q.    By whom are you employed and in what capacity?**

7

8   A.    I am employed by the Illinois Commerce Commission ("Commission") as an  
9        Economic Analyst in the Telecommunications Division.

10

11   **Q.    Please describe your education, background and work experience.**

12

13   A.    In 1978 I received a Bachelor of Arts Degree in Accounting and in 1981 I  
14        received a Master of Arts, Business Administration Degree (later converted to an  
15        MBA) from Sangamon State University, now known as the University of Illinois -  
16        Springfield. I am a Certified Public Accountant, licensed to practice in Illinois.

17

18        I have approximately five years experience as an Internal Revenue Agent prior to  
19        my employment by the Commission in 1982. Prior to assuming my present  
20        position, I served as a Staff Accountant, an Audit Manager, and Supervisor of  
21        Training in the Accounts and Finance Department and as Supervisor of the  
22        Accounting Section in the Telecommunications Department of the Public Utilities  
23        Division of the Commission.

24

25 I am a member of the American Institute of Certified Public Accountants and the  
26 National Association of Regulatory Utility Commissioners ("NARUC") Staff  
27 subcommittee on Education.

28

29 **Q. What is the purpose of your testimony in this proceeding?**

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31 A. My testimony addresses the shared and common costs factors related to this  
32 tariff. I am also responsible for issues associated with merger related costs and  
33 savings.

34

35 **Q. Do any schedules and attachments accompany your testimony?**

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37 A. No.

38

39 **Q. How has Ameritech Illinois ("AI") calculated the amount of shared and**  
40 **common costs included in the rate of each element?**

41

42 A. To develop a rate, the TELRIC of each element was multiplied by a shared and  
43 common cost factor of %, which results from freezing the extended TELRIC  
44 calculation and shared and common cost pools established in Docket 96-0486.  
45 (AI Ex. 2.0 (Palmer), p. 10)

46

47    **Q.    Is a more updated study of AI's shared and common costs factor available?**

48

49    A.    Yes. In compliance with the Commission's Order in Docket 98-0555, AI provided  
50           a revised study of Shared and Common Costs to Commission Staff in July 2000.  
51           That study derives a shared and common cost factor of       % based upon 1998  
52           data.

53

54    **Q.    Has the Illinois 1998 Shared and Common Study been approved by the**  
55           **Commission?**

56

57    A.    No, it has not. Staff's brief in Docket 98-0396 recommends that shared and  
58           common costs be investigated in this docket. (Staff Reply Brief, pp.2-3).

59

60    **Q.    Should the Commission investigate the Illinois 1998 Shared and Common**  
61           **Study in this docket?**

62

63    A.    Yes, the Commission should investigate AI's shared and common cost study, as  
64           well as its other cost studies, in this docket. There is no procedure for approving  
65           or ordering revisions of any of AI's cost studies outside of a docketed case. I  
66           agree that the shared and common cost study should be investigated in this  
67           proceeding. However, AI has not introduced either the Illinois 1998 Shared and  
68           Common Study or a more current version of that study in this docket. AI should  
69           present a current study of shared and common costs for use in this docket.

70

71 **Q. Are you recommending that the % shared and common cost factor**  
72 **developed in the Illinois 1998 Shared and Common Cost Study be utilized**  
73 **in this docket?**

74

75 **A.** It is my opinion that the most current cost information available should always be  
76 used in establishing rates. Therefore, use of the % factor is preferable to the  
77 factor used by AI. However, I cannot recommend use of this factor because I  
78 believe that there are serious flaws in the Illinois 1998 Shared and Common Cost  
79 Study that should be corrected and that a revised factor should be used. AI  
80 should make the appropriate modifications to the Illinois 1998 Shared and  
81 Common Cost Study and develop a corrected and more current revised factor.

82

83 **Q. Has AI made significant changes to the methodology it uses in its cost**  
84 **models?**

85

86 **A.** Yes. As Mr. Palmer describes in his testimony (AI Ex. 2.0 (Palmer), pp.6-9),  
87 Ameritech Illinois has made a multitude of model and assumption changes to the  
88 way it computes TELRICS for ULS-ST. Mr. Palmer discusses the revisions to  
89 various models used in the development of these costs but does not present a  
90 study for the shared and common cost factor. From my review of the Illinois  
91 1998 Shared and Common Cost Study it appears that several changes in

methodology have been made from the analysis of shared and common costs adjusted and approved by the Commission in Docket 96-0486.

Staff believes that it is incumbent upon Ameritech Illinois to describe the effect of each of these changes. The Company should perform an analysis of the impact for each of the assumption changes. The Company should present the result of these analyses in its rebuttal testimony. The Company should also demonstrate that its current study properly reflects the expenses disallowed by the Commission in the initial TELRIC case, Docket 96-0486. The burden of proof lies upon the Company to establish complete cost support for its proposed rates. Since Ameritech did not present a shared and common cost study in this case, each party to the case should be given the opportunity to address Ameritech's revised study in the rebuttal phase of this case.

**Q. What specific adjustments were made to AI's study of shared and common costs in Docket 96-0486?**

**A.** The Commission adopted the following specific adjustments and directed Ameritech to recalculate its costs in accordance with the Commission's findings.

1. Three of fifteen employees were improperly assigned to UNEs based on Ameritech's organizational chart.
2. Salaries and Benefits associated with employees assigned to wireless, mutual compensation, and long distance services were

not allowed to be recovered in UNEs.

3. Other employee related expenses such as computer costs and space related costs were adjusted.
  4. Software expenses were required to be amortized over 2 years.
  5. Costs of new computers and software were allocated between shared costs and the common cost pool.
  6. Corporate Strategy costs and Public Policy costs were removed from the shared cost pool and placed in the common cost pool.
  7. Charitable contributions and the costs of sporting events, skyboxes and White House dinners were disallowed entirely.
  8. Retail related expenses were removed from the common cost pool. These included costs of printing customer bills, providing retail customer account information, computer costs associated with billing, correction and special handling of bills, and remittance of Ameritech customer bills.
  9. Common costs were required to be allocated to "New Ventures".
  10. Shared and common costs must be allocated based upon the extended TELRIC (unit cost times demand) for each element.
  11. Costs must be allocated to Illinois based on the extended TELRICs for each state re-calculated using Illinois approved TELRIC assumptions.
- (Docket 96-0486, pp. 35-54.) Ameritech should explain in its rebuttal testimony how each of these adjustments is reflected in both its shared and common costs

study and the % shared and common cost factor utilized by Mr. Palmer.

**Q. Please discuss the issues in the Illinois 1998 Shared and Common Cost Study which you have identified.**

**A.** Based upon my review of the Illinois 1998 Shared and Common Cost Study submitted to Staff in July 2000, I have the following concerns.

1. The study is not based on forward looking budgeted data as was adopted by the Commission in Docket 96-0486. The use of historical data with numerous adjustments is prone to manipulation and should be considered less reliable than truly forward looking data.
2. The total shared and common costs factor is not equal to the sum of its parts due to AI's use of a "rolling denominator". AI should provide its complete rationale for the use of this method and confirm whether this methodology is consistent with the study used in Docket 96-0486.
3. From AI's "Documentation and User Manual" it is not clear whether the TELRIC base denominator includes costs which are excluded from the numerator because they would not be incurred in a network built today.
4. The sources of data and calculations used in Schedule 7 "Cost Savings and Inflation" are unclear. Appropriate references and



supporting workpapers should be provided. Use of inflation factors should not be necessary if forward looking costs are used.

5. Calculation of the Annual Charge Factor includes substitutions of factors for obsolete equipment.
6. The amounts included for merger related costs and savings should be updated to reflect current estimates which can be derived from the total projected by merger integration team reports or the Barrington Wellesley Group Confidential Final Report. Current estimates of merger related net savings are approximately 80% greater than the estimates used in the 1998 study.
7. The Net Present Value (NPV) calculations are inconsistent, apparently using 4 years for expense savings and 3 years for capital savings. Staff believes that use of forward looking data will negate the need for any NPV calculations and that the forward looking going level or run rate net expense and capital savings should be used. In any case, no NPV calculation for years prior to 2002 is appropriate.
8. Development of the current cost/book cost ratio is not sufficiently explained in either the study or the Documentation and User Manual.
9. It appears that the Illinois 1998 Shared and Common Cost Study contains mathematical errors. For example, line 10 of Schedule 4, Analog Electronic Switching amounts do not sum to the amount

shown as adjusted study year investment and the substitute annual charge factor utilized contains a depreciation cost for an account Staff believes to be fully depreciated.

10. Ameritech should incorporate current demand data into its study of shared and common costs. Staff has not yet received a reply to its data request for demand data and will address issues related to demand in its rebuttal testimony.

Ameritech Illinois should address each of these concerns in its rebuttal testimony and when revising its shared and common cost study to a forward looking study.

**Q. Do you have any additional comments?**

A. Yes, I do. Some issues identified in response to the above question may also impact other cost models used in this case. For example, forward looking costs reflecting correct values for merger related costs and savings (including procurement related savings) and correction or elimination of NPV calculations of those savings should be consistently applied to each of the models. Other Staff witnesses are responsible for the detailed review of these models.

**Q. Please summarize your recommendations.**

A. Ameritech should perform a current study of shared and common costs which is in compliance with the Commission's Order in Docket 96-0486 and addresses

each of the concerns I have listed above. This study should be forward looking and based on preliminary estimated budget data as ordered by the Commission in that docket. Staff believes that preliminary budget data for 2002 is now available and I recommend that the most forward looking preliminary budget data available be used. The study should be addressed in this docket.

The amounts of merger costs and savings utilized in each of the cost studies should be increased approximately 80% to reflect current estimates of net merger related savings. Merger related costs and savings should be reflected in that study at a forward looking, going level with no calculation of NPV. In any event, no NPV calculations for years prior to 2002 should be utilized in any of the cost studies being reviewed in this docket.

In the event that Ameritech does not provide a current, forward-looking study of shared and common costs, it should provide support for the % shared and common cost factor used in its direct case and should demonstrate that this factor was calculated in accordance with the Commission's decision in Docket 96-0486.

**Q. Does this conclude your testimony?**

**A. Yes, it does.**

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